



Memorandum

Date: DECEMBER 12, 2006
To: PLANNING COMMISSION
From: COMMUNITY DEVELOPMENT DEPARTMENT
Subject: ABAG DRAFT REGIONAL HOUSING NEEDS ALLOCATION
METHODOLOGY

REQUEST

Review ABAG Draft Regional Housing Needs Allocation Methodology and advise the City Council of an appropriate response to that Methodology.

RECOMMENDATION

Recommend the City Council draft a letter to ABAG supporting the Regional Housing Needs Allocation Methodology with the exception of the proposed uniform allocation of affordable units.

BACKGROUND

State law requires that all cities in the ABAG region update the Housing Elements of their General Plans for the period 2007 through 2014. State law also requires the State Department of Housing and Community Development, in conjunction with ABAG, to determine each city's fair share of the regional housing need. This fair share includes an overall number of new housing units that should be accommodated within each city and identifies the percentage of the overall number of units that should be available at various income or affordability levels. State law requires cities to plan for production of these units as part of the Housing Element update. The updated Housing Element should be submitted to the State for review before July 1, 2009.

ABAG DRAFT REGIONAL HOUSING NEEDS ALLOCATION METHODOLOGY

ABAG has distributed for review and comment its draft Methodology for determining each city's housing allocation. In addition to the Methodology, ABAG has included the actual allocation to each city, should the Methodology be approved. The deadline for

ABAG Draft Regional Housing Needs Allocation Methodology

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submitting comments on the draft Methodology is January 18, 2007. A summary of that Methodology is attached for Commission review. Copies of the complete draft report are available should Commissioners wish to review more a more detailed description of Methodology and its development.

In summary, the draft Methodology uses the following five factors to determine each city's allocation:

- projected household growth (40%)
- existing employment (20%)
- projected employment growth (20%)
- projected household growth near transit (10%)
- projected employment growth near transit (10%)

Each of these factors is weighted according to the percentages shown. The projected household and employment growth were taken from the ABAG Projections document. Because of the limited service available at the City's train station, its projected household and employment growth near transit was considered to be low. Application of these factors to Morgan Hill in comparison to all other cities in the ABAG region resulted in an overall allocation for the City of 1,327 housing units.

The allocation of units by income category is proposed to be the same for all cities. That allocation uses the same percentages as identified in the 2000 census for the region. This approach is proposed because it would assign each city an equal share of the regional affordable housing need. These percentages are as follows:

- 23% very low income
- 16% low income
- 19% moderate income
- 42% above-moderate income

MORGAN HILL HOUSING ALLOCATION AND PROJECTED PRODUCTION

As identified above, the draft ABAG Methodology would allocate 1,327 new housing units to Morgan Hill for the period of January 1, 2007 through June 30, 2014. Measure C currently allows construction of approximately 250 units per year. Over this planning period for the next Housing Element update, the City should be able to produce approximately 1,875 units. A downturn in the housing market and/or a reduction to the annual Measure C allocation may diminish the number of units the City produces over this time period. However, the City should not have any difficulty meeting the overall ABAG allocation.

The proposed ABAG distribution of housing by affordability level is higher than the City allocation for the current (1999 – 2006) Housing Element cycle and higher than the City's production during that period. These percentages and production numbers are shown on Table 1.

Table 1
Affordable Housing Allocation and Production

Affordability Level	1999 – 2006 Allocation		1999 – 2006 Production		2007 – 2014 Allocation	
	%	# Units	%	# Units	%	# Units
Very Low	18	455	16.0	405	23	305
Low	9	228	15.4	390	16	212
Moderate	25	615	8.8	222	19	252
Above Mod.	48	1186	59.8	1511	42	558
Total		2484		2528		1327

Over the next Housing Element cycle, the production of affordable housing is expected to change in at least three respects. First, in 2005 the RDCS was amended to give additional points to projects that commit to sell ten percent of its units at prices affordable to moderate income families. During the 1999 – 2006 planning period, approximately eight percent of all market rate units were sold at Moderate Income affordable levels. The 2005 amendment should therefore increase by two percent the number of Moderate Income units in the 2007 – 2014 Housing Element period.

Second, a shift in emphasis in the City's support for affordable projects is planned. During the current Housing Element cycle, the City produced 364 units in affordable projects. This represents all but 11 of the 375 affordable units that could have been allocated under the twenty percent set-aside for projects that are entirely percent affordable. A summary of those units by tenure and level of affordability is shown on Table 2. The Business Assistance and Housing Services Department indicates that during the upcoming planning period greater emphasis will be placed on ownership units. No goal exists for a number or percentage of ownership units. However, the City's Affordable Housing Strategy indicates that 40 percent of the funds that are specifically targeted for rental or ownership housing would be spent assisting construction of ownership units. Implementation of this change will result in a decrease in the number of Very Low Income affordable units that are produced and an increase in the number of Moderate Income affordable units.

Table 2
Housing Production in Affordable Projects
1999 – 2006

Affordability Level	Rental		Ownership		Total # Units
	%	# Units	%	# Units	
Very Low	50.7	175	0	0	175
Low	45.8	158	57.9	11	169
Moderate	3.5	12	42.1	8	20
Total		345		19	364

Third, the City recently amended its standards to allow 25 percent of affordable projects to be rented or sold at market rates. This will have the obvious effect of reducing the number of affordable units that are produced. The extent of the reduction is difficult to determine as market rate rental units are often affordable to persons and families at the Moderate income level.

Taking into account the three affordable changes mentioned above, staff has developed an estimate of housing production for the next Housing Element update. That production is shown on Table 3. The assumptions used in the Table include the following:

- All of the estimated 1875 units that can be authorized units will be allocated and constructed.
- The percentage of the 1999 – 2006 production of market rate projects that was affordable at the Very Low and Low Income levels will remain unchanged.
- The percentage of the 1999 – 2006 production of market rate projects that was affordable at the Moderate Income level will increase by 2 percent.
- The percentage of the 1999 – 2006 production of market rate projects that were secondary units (3.7 percent, Low Income affordable) will remain unchanged.
- The percentage of the Affordable projects that are rental will decrease from 94% to 60%
- The levels of affordability in Affordable rental projects will be 40% Very Low, 35% Low and 25% Moderate.
- The levels of affordability in Affordable ownership projects will be 50% Low, 25% Moderate and 25% Above Moderate.

Table 3
Projected Housing Production, 2007 - 2014

Affordability Level	Affordable Competition Units		Market Rate Competition Units		Total Units	
	%	# Units	%	# Units*	%	# Units
Very Low	24	90	8.5	132	11.5	222
Low	41	154	9.6	149	15.7	303
Moderate	25	94	11.8	183	14.4	277
Above Mod.	10	37	70.1	1091	58.4	1128
Total		375		1555		1930

* Includes 55 secondary units that are exempt from the Competition

These estimates suggest that because the City will likely produce more housing overall than indicated by the ABAG draft Methodology, it should be able to meet most of the numeric goals for affordable housing production. However, it is unlikely the City would meet many of the goals expressed in percentage terms. The State Department of Housing and Community Development (the agency responsible for evaluation of Housing Elements for consistency with State law) indicates that, based on current law, their evaluation will be based on numeric production and not percentage goals. Further, State law only requires that there be no impediments to production of the number of units, not that the units be constructed.

CONCLUSION / RECOMMENDATION

Overall, Staff is supportive of the draft ABAG Methodology. Emphasizing housing production near existing employment and transit centers and deemphasizing production in outlying areas should help to reduce traffic congestion, improve air quality and enhance a number of other environmental and social goals.

Staff is somewhat concerned about the uniform allocation of affordable housing throughout the region. Morgan Hill has very aggressive and successful affordable housing programs. However, the City is situated in a suburban location with relatively low land values and without major transit facilities. These two factors do not support the higher residential densities that often facilitate more affordable housing. While Staff believes the City will be able to meet the proposed ABAG Regional Housing Allocation for Morgan Hill, we believe higher percentages of affordable housing production should be assigned to those cities where higher residential densities are viable and transit opportunities exist.

Staff recommends the Planning Commission endorse the draft ABAG Regional Housing Needs Allocation Methodology with the exception of the uniform allocation of affordable units to all cities in the region and recommend the City Council take similar action.

Attachment: Summary of Draft Regional Housing Needs Allocation Methodology

ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



MEMO

To: ABAG Executive Board
From: ABAG Staff
Date: October 26, 2006, Revised November 17, 2006
Re: *Draft Regional Housing Needs Allocation Methodology*

Recommendation

Staff recommends that the ABAG Executive Board adopt Resolution 13-06 authorizing release of the Housing Methodology Committee's recommendation for a proposed Regional Housing Needs Allocation Methodology (RHNA) for the 2007-2014 period. Upon release, a not less than 60-day public comment period on the methodology will begin. The comment period will close on January 18, 2007. On that date, staff will bring to the Executive Board recommendations for the final methodology. The final methodology shall include responses to all comments received on the draft RHNA methodology and reasons for any significant changes.

Background

As the region's Council of Governments, ABAG is responsible for allocating the state-determined regional housing need to all jurisdictions in the Bay Area. The HMC was established in May 2006 to assist staff in developing a recommended methodology for allocating the regional need for adoption by the ABAG Executive Board. The HMC was comprised of local elected officials, city and county staff, and stakeholder representatives.

Regional Housing Needs Allocation Process

The Regional Housing Needs (RHN) process is a state mandate regarding planning for housing in California. The state, regional and local governments each have a role to play. Local governments have autonomy in planning for exactly how and where housing will be developed in their individual communities. The amount of housing cities and counties must plan for, however, is determined through the interplay of state, regional and local housing policy.

The State of California requires that all jurisdictions in the state update the Housing Elements of their General Plans. Housing Elements serve as the local plan for how a jurisdiction will meet its share of the region's housing need. The State of California, via the Housing and Community Development Department (HCD), determines each region's need for housing, primarily based on estimated population growth. COGs then allocate that need, for all income groups, amongst jurisdictions. Jurisdictions then plan for that need in their housing elements, which are state-certified by HCD.

RHNA Methodology Recommendation

The regional housing needs allocation methodology is the tool used to assign each jurisdiction in the Bay Area its share of the region's total housing need. The actual tool is a mathematical equation that consists of weighted factors. There are also a set of "rules" that dictate how units will be allocated by income, within spheres of influence, voluntary transfer of units, and subregions. The HMC's recommendation encompasses these distinct components of the methodology.

In their recommendation, the HMC members considered local land use plans and policies, regional growth policies and the state's housing policies, as expressed in the state mandated RHNA objectives. Additional information on how these recommendations were derived is contained in the attached report.

1. Weighted Factors

Factors in the allocation methodology are the mathematical variables that allocate shares of the regional housing need (RHN). The factors reflect: 1) state mandated RHNA objectives; 2) RHNA statutory requirements; 3) local policy and 4) regional policy. In the methodology, each factor is given priority relative to the others. Priority is established through “weighting” in the formula. For example, if one of the factors, household growth, is determined to be more important than another factor, e.g., transit, the methodology can give household growth a higher weight than transit in the formula. The methodology may also equally weight the factors, therefore ensuring that all the factors are of equal priority.

A. Household Growth, 40 Percent

Each local jurisdiction should plan for housing according to regionally projected household growth within its boundaries during the RHNA planning period (2007 – 2014). Household growth should be weighted 40 percent in the allocation. Household growth is used as a factor, as opposed to existing households or total households, to ensure that additional housing is not allocated where there are existing concentrations of homes in the region, but rather where growth is anticipated to occur. In this way household growth as a factor in the methodology ensures that the allocation is consistent with both local plans for growth and with regional growth policies, as those areas that are planning for household growth would receive a higher allocation than those areas not planning for growth. Household growth in ABAG’s *Projections* is most influenced by local land use plans and policies, including planned and protected agricultural lands, open space and parks, city-centered growth policies, urban growth boundaries, and any physical or geological constraints.

Regional policies have been incorporated into *Projections* since 2002, are assumed to go into effect by 2010, and therefore have some effect on regional housing growth estimates in the 2007-2014 RHNA period. Regional policies assume that there will be increased housing growth in existing urbanized areas, near transit stations and along major public transportation corridors. These regional policies are consistent with state housing policies to promote infill development, environmental and agricultural protection and efficient development patterns.

B. Existing Employment, 20 Percent; Employment Growth, 20 Percent

Each local jurisdiction should plan for housing to accommodate existing employment (2007) and regionally projected employment growth within its boundaries during the RHNA planning period (2007 – 2014). This would ensure that the need allocation gives jurisdictions with both existing concentrations of jobs and planned job growth a share of the regional housing need. This would direct housing to existing job centers and to areas with anticipated employment growth. These jobs allocation factors may address regional jobs-housing imbalance and facilitate access by proximity, for housing would be directed to communities with jobs and planned jobs, which may reduce vehicle miles traveled due to reduced inter- and intra-regional commuting.

C. Household Growth near Transit, 10 Percent; Employment Growth near Transit, 10 Percent

Each local jurisdiction with an existing or planned transit station should plan for more housing near such stations. Current regional policy places incrementally more growth along major transportation corridors and at transit stations. Therefore, a housing need allocation that uses regional housing growth and employment as factors would be inclusive of “transit” as a policy issue. Using transit as a

direct factor in the methodology would give transit a greater degree of policy weight. Those jurisdictions with transit, existing and planned, would receive a relatively higher proportion of the housing needs allocation than those jurisdictions without existing or planned transit. The inclusion of "planned" transit in the methodology could potentially give a relatively higher allocation to an area where the planned transit does not materialize. However, if housing is built at appropriate densities before transit is put in place, the transit investment may become more financially feasible, for projected ridership would be higher.

2. Regional Income Allocations

Each local jurisdiction should plan for income-based housing in the same ratio as the regional average income distribution. A methodology that assigns each jurisdiction's regional housing need based on the regional average income distribution would be an "equal share" approach because it applies the same income distribution to each jurisdiction. Although considered an equitable approach, it does not consider existing concentrations of poverty.

3. Spheres of Influence

Each local jurisdiction with the land-use permitting authority in a "Sphere of Influence" should plan for the housing needed to accommodate housing growth, existing employment and employment growth in such "Sphere of Influence" areas. Except for Marin County, where a 75 city and 25 county distribution is recommended, a 100 percent allocation of the housing need to the jurisdiction that has land use control over the area would ensure that the jurisdiction that plans for accommodating the housing units also receives credit for any built units during the RHNA period.

4. Transfer of Units

After the initial allocation of the regional housing need, a local jurisdiction may request approval to transfer units with willing partner(s), in a way that maintains total need allocation amongst all transfer parties, maintains income distribution of both retained and transferred units, and includes package of incentives to facilitate production of housing units. This transfer rule would allow the transfer of allocated housing need between willing jurisdictions in conjunction with financial resources, while maintaining the integrity of the state's RHNA objectives by preventing any jurisdiction from abdicating its responsibility to plan for housing across all income categories. Transfers done in this manner may facilitate increased housing production in the region.

5. Subregions

The County of San Mateo, in partnership with all twenty cities in the county, has formed a subregion, as allowed by state statute. ABAG will assign a share of the regional need to the subregion "in a proportion consistent with the distribution of households" in *Projections 2007*. The subregion is then responsible for completing its own RHNA process that is parallel to, but separate from, the regional RHNA process. The subregion will create its own methodology, issue draft allocations, handle the revision and appeal processes, and then issue final allocations to the members of the subregion. The rules on how to handle the subregion allocation in the event the subregion fails are contained in the attached RHNA technical document.